

London & Quadrant Housing Trust Trading Update for the period ending 31 December 2020

London & Quadrant Housing Trust ('L&Q') is today issuing its consolidated trading update for the nine months ended 31 December 2020 ('2020 Q3').

All statement of comprehensive income comparatives are to L&Q's consolidated unaudited prior year equivalent period being the nine months ended 31 December 2019 ('2019 Q3') and include the trading activities of Trafford Housing Trust ('THT') that was acquired by L&Q on 1 October 2019.

Highlights:

- There are 116,860 units in management (as at 31 March 2020: 115,003)
- L&Q has completed 1,763 residential units (2019 Q3: 1,997)
- Turnover was £689m (2019 Q3: £638m)
- EBITDA¹ was £301m (2019 Q3: £214m)
- EBITDA margin² was 37% (2019 Q3: 25%)
- EBITDA margin (excluding sales)³ was 56% (2019 Q3: 40%)
- Gross sales margin⁴ was 15% (2019 Q3: 15%)
- Net sales margin⁵ was 7% (2019 Q3: 7%)
- EBITDA / interest cover⁶ was 271% (2019 Q3: 180%)
- EBITDA social housing lettings interest cover⁷ was 206% (2019 Q3: 130%)
- Operating surplus was £270m (2019 Q3: £215m)
- Debt to assets⁸ was 42% (2019 Q3: 43%)
- Sales as a % of turnover¹⁰ was 38% (2019 Q3: 44%)

Commenting on the results Waqar Ahmed, Group Director, Finance said:

"Our Q3 results provide us with the confidence to improve our forward guidance metrics for the financial year ending 31 March 2021. We expect EBITDA to be in a range of £325m to £350m (Q2: £300m to £325m) and net debt to be in the range of £5.6bn to £5.7bn (Q2: £5.8bn to £5.9bn). Our revised projections reflect stronger than expected operational performance during the Covid-19 pandemic, particularly in relation to completions, sales and rent arrears. Our projections also reflect the considerable progress that we have made against our stated objective to conserve cash flows through a reduction in capital and operating expenditure.

Available liquidity at greater than £1.1bn continues to demonstrate our ability to generate cash flow that provides financial resilience and flexibility. Our strong liquidity position leaves us well placed to address future external uncertainty that is supported by the strength of our balance sheet. The release of our new five-year strategy under the leadership of Fiona Fletcher-Smith, appointed as Chief Executive on 11 January 2021, will set out how we will put existing customers first, ensuring that their homes are safe, high quality and supported by excellent services and thriving communities. We have no intention of stopping building homes – they are core to our social mission - but the pace of delivery will ease in the short term."

Forward Guidance to the year ending 31 March 2021

The following remains subject to uncertainty on future business disruption caused by Covid-19 and assume current market conditions continue for the remainder of the financial year; and that there are no further imposed lockdowns that create disruption to our construction sites.

We project EBITDA to be in the range of £325m to £350m (Q2: £300m to £325m) and capital expenditure¹¹ to be in the range of £550m to £600m (Q2: £575m to £625m). Included within our EBITDA projections are £27m (Q2: £15m) of costs assigned to conduct fire remedial and safety works. Our projections for surplus after tax are expected to be

in the range of £225m to £240m (Q2: £200m to £215m). Net debt is expected to be in the range of £5.6bn to £5.7bn (Q2: £5.8bn to £5.9bn).

Financial Metrics	Forward Guidance to 31 March 2021
EBITDA margin ²	28%
EBITDA margin (excluding sales) ³	45%
Net sales margin ⁵	11%
EBITDA interest cover ⁶	249%
Social housing lettings EBITDA interest Cover ⁷	179%
Debt to assets ⁸	43%
Gross debt to EBITDA ⁹	15.3x
Sales as a % of turnover ¹⁰	49%

Housing Completions

L&Q, including joint ventures, has completed 1,763 (2019 Q3: 1,997) residential units in the financial year. This comprises of 988 (2019 Q3: 982) completions for social housing tenures and 775 (2019 Q3: 1,015) completions for market tenures. During that same time 2,159 new build residential units commenced on site (2019 Q3: 2,454).

Development Pipeline

L&Q, including joint ventures, is operating from 178 (2019 Q3: 169) active sites. L&Q has approved an additional 1,998 residential units during the financial year bringing total units in the approved development pipeline to 31,916 (2019 Q3: 50,937). Of the units approved in the development pipeline 61% are for social housing tenures and 39% are for market tenures. Some 67% of the approved pipeline (21,314 units) is on site (2019 Q3: 39%). L&Q holds a further potential 72,799 (2019 Q3: 58,900) strategic land plots.

The future projected cost of the entire development pipeline (including work in progress and developments not yet committed or on site) that extends until the financial year ending 31 March 2040 is estimated at £5.3bn (2019 Q3: £6.7bn) of which £4.2bn (79%) is currently committed (2019 Q3: £5.6bn).

Unaudited Financials

The unaudited financials exclude further adjustments that are subject to audit review :

Statement of Comprehensive Income	2020 Q3 (£m)	2019 Q3 (£m)	Change
Turnover			
Non-sales	515	477	
Sales	174	161	
	689	638	8%
Operating costs and cost of sales			
Non-sales	(304)	(333)	
Sales	(173)	(152)	
	(477)	(485)	(2%)
Surplus on disposal of fixed assets and investments	37	44	
Share of profits from joint ventures	21	18	
Change in value of investment property	-	(1)	
Operating surplus	270	214	26%
Net interest charge	(75)	(89)	
Other finance income/ (costs)	-	(5)	
Taxation	-	1	
Surplus for the period after tax	195	121	54
Capitalised Interest	(36)	(30)	

<i>Statement of Financial Position</i>	<i>2020 Q3 (£m)</i>	<i>31 March 2020 (£m)</i>	<i>Change (£m)</i>
Housing properties	10,721	10,555	166
Other fixed assets	77	81	(4)
Investments	1,644	1,622	22
Net current assets	799	926	(127)
Total assets less current liabilities	13,241	13,184	57
Loans due > one year	5,376	5,528	(152)
Unamortised grant liabilities	2,123	2,105	18
Other long term liabilities	320	324	(4)
Capital and reserves	5,422	5,227	195
Total non-current liabilities and reserves	13,241	13,184	57

Non-Sales Activities

<i>Activity</i>	<i>2020 Q3 (£m)</i>	<i>2019 Q3 (£m)</i>	<i>Change (£m)</i>
Net rents receivable	475	436	39
Charges for support services	8	7	1
Amortised government grants	18	18	-
Other income	14	16	(2)
Turnover	515	477	38
Management costs	(43)	(42)	(1)
Service costs	(66)	(59)	(7)
Maintenance costs	(97)	(122)	25
Support costs	(10)	(7)	(3)
Depreciation & impairment	(69)	(60)	(9)
Other costs	(19)	(43)	24
Operating costs	(304)	(333)	29
Surplus on disposal of fixed assets	37	44	(7)
Operating surplus	248	188	60
<i>Capitalised Major Repairs</i>	<i>(20)</i>	<i>(43)</i>	<i>23</i>

Sales Activities

The cost of sales is inclusive of capitalised interest and overhead costs:

<i>Activity</i>	<i>2020 Q3 (£m)</i>	<i>2019 Q3 (£m)</i>	<i>Change (£m)</i>
Property sales income	143	127	16
Land sales income	31	34	(3)
Turnover from sales (excluding JV's)	174	161	13
Cost of property sales	(131)	(109)	(22)
Cost of land sales	(22)	(20)	(2)
Operating costs	(20)	(23)	3
Total costs (excluding JV's)	(173)	(152)	(21)
Operating Surplus (excluding JV's)	1	9	(8)
Joint venture turnover	138	220	(82)
Joint venture cost of sales	(112)	(193)	81
Joint venture operating costs	(5)	(9)	4
Share of profits from joint ventures	21	18	3

Average Selling Price

The average selling price, including JV's, for outright market sales during the financial year to date was £488k (2019 Q3: £524k) of which 50% were conducted under Help to Buy (2019 Q3: 70%). The average selling price of first tranche shared ownership sales during the financial year to date was £435k (2019 Q3: £384k) with an average first tranche sale of 36% (2019 Q3: 34%).

Sales Margins

The cost of sales is inclusive of capitalised interest and overhead costs:

Activity	<i>Shared Owner- ship (£m)</i>	<i>Outright Sales (Non-JV) (£m)</i>	<i>Land Sales (£m)</i>	<i>Outright Sales (JV's) (£m)</i>	2020 Q3 (£m)	2019 Q3 (£m)	Change
Turnover	34	109	31	138	312	381	(69)
Cost of sales	(29)	(102)	(22)	(112)	(265)	(322)	57
Gross profit	5	7	9	26	47	59	(12)
Gross sales margin	14%	6%	29%	19%	15%	15%	-
Operating costs	(2)	(7)	(11)	(5)	(25)	(32)	7
Operating surplus	3	-	(2)	21	22	27	(5)
Net sales margin	9%	-	(6%)	15%	7%	7%	-

Unsold Stock

As at 31 December 2020, L&Q, including joint ventures, held 686 completed units as unsold stock with a projected revenue of £207m. Projected revenue for shared ownership assumes a first tranche sale of 25%. Of the total unsold stock, 52% have been held as stock for less than one month.

L&Q's forward order book excluding joint ventures consists of 74 exchanged units with projected revenue of £29m and 281 reservations with projected revenue of £63m.

Tenure	Projected Revenue (£m)	No. of Units	<1 Month	1-3 Months	3-6 Months	6-12 Months	>12 Months
Shared Ownership	40	321	167	27	61	17	49
Outright Sale (non-JV's)	92	179	65	25	0	6	83
Total excluding Joint Ventures	132	500	232	52	61	23	132
Outright Sale (JV's)	75	186	122	33	3	8	20
Total Joint Ventures	75	186	122	33	3	8	20
Total Unsold Stock	207	686	354	85	64	31	152

Net Debt and Liquidity

As at 31 December 2020, net debt (excluding derivative financial liabilities) was £5,532m (as at 31 March 2020: £5,430m) and available liquidity within the group in the form of committed un-drawn revolving credit facilities and non-restricted cash was at £1,109m (as at 31 March 2020: £595m). Approximately 54% of L&Q's loan facilities and 64% of drawn loan facilities are at a fixed cost.

Unencumbered Assets

	2020 Q3	31 March 2020
No. of units under management	116,860	115,003
No. of social housing units provided as collateral against debt facilities	(60,085)	(55,013)

No. of private rented units provided as collateral against debt facilities	(1,107)	(1,107)
Total no. of unencumbered units under management	55,668	58,883
% of units under management held as collateral against debt facilities	52%	49%
Unencumbered asset ratio ¹²	42%	41%

L&Q Credit Ratings – as at date of trading statement release

Rating Agency	S&P	Moody's	Fitch
Long-term credit ratings	A-/Stable	A3/Stable	A+/Negative

Notes:

¹ Operating surplus + depreciation and impairment – amortised government grant – capitalised major repairs +/- actuarial losses/gains in pension schemes

² EBITDA / (turnover + turnover from joint ventures – amortised government grant)

³ EBITDA from non-sales activities / turnover from non-sales activities

⁴ Gross profit from sales / turnover from sales including joint ventures

⁵ Operating surplus from sales / turnover from sales including joint ventures

⁶ EBITDA / net cash interest paid

⁷ EBITDA from social housing lettings / net cash interest paid

⁸ Net debt (excluding derivative financial liabilities) / total assets less current liabilities

⁹ Gross debt / EBITDA

¹⁰ Sales turnover (including joint ventures) / (turnover plus turnover from joint ventures)

¹¹ Capitalised development expenditure + acquisition of investment property + purchase of other fixed assets

¹² 100% less (loans due after more than 1 year + derivative liabilities + unamortised grant liability) / total assets less current liabilities

This trading update contains certain forward looking statements about the future outlook for L&Q. Although the Directors believe that these statements are based upon reasonable assumptions, any such statements should be treated with caution as future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

For further information, please contact:

investors@lqgroup.org.uk

James Howell, Head of External Affairs

020 0189 1596

www.lqgroup.org.uk

END

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our Privacy Policy.

END